Furniture Brands
INTERNATIONAL

Broyhill

Lane

Thomasville

1996 ANNUAL REPORT

FINANCIAL HIGHLIGHTS

(In thousands, except per share, employee and statistical data)	*Year Ended December 31,* 1996	1995	1994
From continuing operations:			
Net sales	$1,696,795	$1,073,889	$1,072,696
Net earnings[1]	54,222	29,463	27,933
As a percentage of net sales	3.2%	2.7%	2.6%
Net earnings – as adjusted[2]	66,919	41,933	40,984
As a percentage of net sales	3.9%	3.9%	3.8%
Per share of common stock:			
Net earnings[1]	$ 0.86	$ 0.56	$ 0.54
Net earnings – as adjusted[2]	$ 1.06	$ 0.80	$ 0.79
Financial condition at year end[3]:			
Working capital	$ 462,661	$ 455,036	$ 308,323
Current ratio	4.2 to 1	4.4 to 1	4.2 to 1
Total assets	1,269,204	1,291,739	881,735
Total long-term debt	572,600	723,679	426,253
Shareholders' equity	419,657	301,156	275,394
Average common shares – fully diluted	62,871	52,317	51,506
Number of employees	20,800	20,700	13,800

[1] Net earnings from continuing operations before gain on insurance settlement, net of taxes.

[2] Adjusted to remove depreciation and amortization related to fair value adjustments, net of taxes.

[3] 1995 balances reflect the acquisition of Thomasville Furniture Industries, Inc. on December 29, 1995.

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LETTER TO OUR SHAREHOLDERS

During 1996, the Company continued its strong financial performance. On a consolidated basis, net sales were $1,696.8 million, versus $1,073.9 million reported in 1995. The 1996 net sales included those of Thomasville Furniture Industries, Inc., acquired by the Company on December 29, 1995. Had Thomasville been acquired at the beginning of 1995, net sales for 1996 would have increased by 4.5% over those of 1995. Net earnings, before an extraordinary item relating to the Company's refinancing of its long-term debt, were $54.2 million in 1996, compared to $29.5 million (before a special gain from an insurance settlement, as well as a similar extraordinary item) in last year's same period. These results represented a record performance for the Company in 1996.

Net earnings per common share, on a fully diluted basis and before the extraordinary item, were $0.86 for 1996, compared to $0.56 for 1995 (before the gain on insurance settlement and extraordinary item) – an increase of 53.6%. This significant improvement in net earnings per common share occurred despite the dilutive impact of the Company's ten million share common stock offering completed on March 1, 1996.

The Company's mission statement is to become the residential furniture industry's undisputed leader as an innovative furniture manufacturer and in the process to deliver a significantly improved shareholder value. The management and employees are focused on achieving this mission.

Excluding depreciation and amortization resulting from the 1992 asset revaluation (i.e. fresh-start accounting), fully diluted net earnings per common share, before nonrecurring items, would have been $1.06 and $0.80 for 1996 and 1995, respectively.

The Company's 1996 financial performance represents a strong endorsement of the effectiveness of its strategic plan and a continual recognition of the outstanding operating management throughout the corporation. As a result, in 1996 the Company strengthened its position as a leader in the residential furniture industry. In addition, the Company improved its financial condition by generating strong operating cash flow and taking advantage of opportunities in the financial markets to improve its capital structure. These actions enabled the Company to maintain its position as the largest and most profitable residential furniture manufacturer in the country. At the same time, significantly improved shareholder value was achieved as the investment community learned more about the Company's focus and strategic plans.

The acquisition of Thomasville at the end of 1995 required considerable management time and effort in 1996 to effect an orderly transition into the Company. The combination provided a great strategic fit with

Thomasville's products covering the high-end segment of the business. During the year, Thomasville began a repositioning effort to broaden its distribution and review its product line profitability and cost structure with the goal of raising its operating profit margins to levels at or exceeding the Company's other operating divisions — Broyhill and Lane. This effort included implementation of sales policies which negatively affected 1996 operating results, but which were designed to help expand future distribution. Thomasville's potential for sales and profit improvement are as strong as originally envisioned during the acquisition proceedings.

The Company took several steps during 1996 to improve its capital structure, as well as to improve shareholder value. In May, all of its outstanding Series 2 warrants (approximately 1.2 million) were called for redemption. As a result, the Company received approximately $8.6 million from the subsequent exercise of the warrants. In July, the Board of Directors authorized repurchases of outstanding common stock and Series 1 warrants in a total amount up to $30 million over a twelve month period. Subsequently, the Company purchased 3.2 million Series 1 warrants for approximately $18.7 million. These actions reduced the dilutive effect of the Company's warrants and will favorably impact future operating results by $0.01 – $0.02 per common share.

In September, due to a strong year-to-date operating performance and significant debt reduction, and to take advantage of a favorable banking environment, the Company refinanced its Secured Credit Agreement, which will result in substantial reductions in future interest expense. The new Secured Credit Agreement was structured as a five year reducing revolving credit facility with an initial commitment totaling $475 million. At the same time, the Company executed an amendment to its existing Receivables Securitization Facility, which lowered the annual program fee (i.e. interest rate) modestly. The terms of the new Secured Credit Agreement and amendment to the Receivables Securitization Facility provide the Company with lower interest rates, as well as increased financial flexibility, which will favorably impact annual results of operations by $0.05 – $0.06 per common share.

In late November, the Company completed a secondary offering of ten million shares of its common stock on behalf of Apollo Investment Fund, L.P. and Lion Advisors, L.P. These shares were dispersed among current and newly enrolled shareholders in the public market. This offering, as well as a public offering of ten million shares completed on behalf of the Company in March, gave the Company an opportunity to spread the word about our fine operating companies — Broyhill, Lane and Thomasville — while promoting liquidity among current and future shareholders.

As indicated earlier, 1996 net sales were 4.5% over those for 1995 (pro forma for the Thomasville acquisition). Excluding Thomasville, net sales would have increased by 8.75% in 1996 due to the product and marketing programs implemented. At Thomasville, a repositioning effort was undertaken during 1996 to broaden its distribution. Although negatively impacting net sales in the short-term, this repositioning effort was designed to expand Thomasville's dedicated distribution base — a key to the long-term growth potential of this high-end residential furniture manufacturer.

1996 was a challenging year for the residential furniture industry as the retail environment continued to be difficult. However, the Company continued to adhere to the principles of gross profit management — our primary operating philosophy — by introducing new products, winning new customers and developing new markets. (Examples of new product introductions by each operating company are shown later in this annual report.) Enhancing brand name strength and expanding distribution channels — dedicated and nondedicated — continue to be foremost in the Company's overall marketing strategy.

The Building Blocks of Gross Profit Management

SALES

New products

New customers

New markets

Pricing analysis

COST OF GOODS SOLD

Cost control

Cost reduction

Low-profit product review

Purchasing strategy

Capital utilization

People involvement

Management accountability

Contingency planning

GROSS PROFIT

Marketing programs include continued use of targeted marketing techniques such as direct mail and customer assistance telemarketing. Consumer and trade advertising remain an important part of the marketing effort, ranging from print advertising in shelter and other consumer magazines to regional and national television. The Company is one of the largest advertisers in the residential furniture industry. Its dedicated distribution network of dealer-owned furniture centers, galleries and stand-alone stores was strengthened during 1996. The Company's dedicated distribution network is the largest in the industry — more than twice the size of its nearest competitor.

Earnings from operations for 1996 reflected continued emphasis on gross profit management — particularly cost reduction and low-profit product review — and control of operating expenses. Consolidated operating profit margins improved due to the foregoing, as well as better manufacturing utilization rates, as the manufacturing capacity added during the 1994-95 period began to pay off with the increased sales volume generated by the Company's product and marketing programs.

Operating cash flow was very favorable during 1996 due to the strong earnings performance and good working capital management. Internally generated cash flow was used to fund a substantial capital expenditures program, totaling approximately $40 million. The Company remains dedicated to being a low cost producer by investing in new manufacturing technologies, while maintaining existing facilities in peak condition. Using its remaining cash flow from operations, as well as the net cash proceeds from the March 1, 1996 equity offering, the Company reduced its long-term debt by $150.3 million. This deleveraging activity, coupled with the previously noted refinancing, provides the Company with a flexible capital structure to meet its future financing needs.

Incoming orders for 1996 were moderately ahead of those for the prior year, pro forma for the acquisition of Thomasville. The Company's order backlog at December 31, 1996 was $205.9 million, representing a 6.1% increase over the previous year, pro forma for the acquisition of Thomasville. The backlog increase gave the Company good momentum as it entered 1997.

The management team continues to work to maintain the Company's position as the leading residential furniture manufacturer in the United States. Our growth strategy includes five major elements:

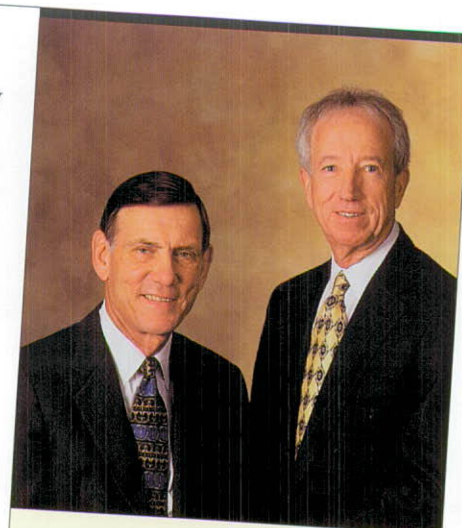
- Grow market share profitably
- Capitalize on the Thomasville acquisition
- Expand operating company coordination
- Accelerate emphasis on cost reduction
- Improve asset base utilization

The Company is committed to grow market share — profitably — by enhancing its brand name strength, expanding distribution channels (dedicated and nondedicated), penetrating new domestic and international markets and developing innovative, high margin products. To capitalize fully on the Thomasville acquisition, continual improvement of that company's

A major event in 1996 was the election, effective October 1, 1996, of W.G. (Mickey) Holliman to the office of President and Chief Executive Officer succeeding Richard B. Loynd, who remains Chairman of the Board. Mr. Holliman, who also was elected a director of the Company, was previously President and CEO of Action Industries, a subsidiary of the Company. Mr. Holliman was one of two founders of Action and, during a 25 year period, built the start-up company into one of the leaders in the furniture industry. During this period, Action's sales and earnings compound annual growth rate approximated 20%. Mr. Holliman's proven ability to grow both sales and earnings while entering new markets and gaining market share is an exact fit with the strategic positioning and objectives of Furniture Brands International. The Company was very fortunate to have someone from within its senior management who could step into this responsibility and continue the existing plans and programs without fear of losing any momentum.

LETTER TO OUR SHAREHOLDERS

operating profit margins must be realized, and will be achieved as new management disciplines and operating strategies are implemented. As operating company management teams are encouraged to work more closely together, financial benefits from this coordination of efforts should be realized in the areas of volume purchasing, joint international sourcing, asset utilization, best operating practices and complementary sales and marketing activities. Finally, although all twelve building blocks of gross profit management are important — and will be emphasized — cost reduction will be accelerated as the Company looks for methods and technologies to reduce material costs and improve manufacturing efficiencies. In addition, our manufacturing asset base will be reviewed carefully to ensure this important capital resource is used fully and effectively.



Richard B. Loynd (left)
W.G. (Mickey) Holliman

Today, Furniture Brands International continues to be the largest and most profitable residential furniture manufacturer in the country. The Company's mission statement is to become the residential furniture industry's undisputed leader as an innovative furniture manufacturer and in the process to deliver a significantly improved shareholder value. The management and employees of the Company are focused on achieving this mission and look forward with enthusiasm to working together with our suppliers, customers and consumers, as well as the investment community, in this endeavor.

On behalf of the management and employee team, we thank you for the confidence you have shown in the Company. We continue to recognize our responsibility to increase shareholder value and believe the actions taken during 1996 were consistent with this goal while positioning the Company to achieve its long-term sales and earnings growth objectives. We look forward to the challenges and opportunities in 1997.

Sincerely,

W.G. (Mickey) Holliman
President and Chief Executive Officer

Richard B. Loynd
Chairman of the Board


Broyhill

Broyhill, truly one of America's great success stories, celebrated its 70th anniversary in 1996. Born in a blacksmith's shop in Lenoir, North Carolina, Broyhill has grown into one of the best-known full-line furniture manufacturers in America with nine out of ten consumers recognizing the Broyhill brand name. Broyhill is committed to serving the "good" and "better" price furniture categories by selling a widely distributed product line under a strong brand name with superior customer service.

Broyhill products are distributed through a network of more than 6,200 retail locations, including more than 335 dedicated Broyhill Showcase Galleries and more than 420 dedicated Broyhill Furniture Centers with a combined display space of more than 3 million square feet.

Broyhill's strong record in 1996 was reflected by several very special honors during the year, including JC Penney's "Supplier of the Year," Sears' "Partner in Progress" and HOME *magazine's "American Furniture Award."*

Product lines include all major furniture categories from bedroom, dining room, occasional tables, home theater and home office to stationary and fully reclining upholstery. Styling ranges from country and traditional to casual and contemporary. In 1996, the Broyhill design team was rewarded for its fashion-forward styling with the prestigious American Furniture Award for "excellence in creativity in American design" from *HOME* magazine, for the Broyhill tooled leather recliner. One of the many product highlights of the year was the Premier division's Center Place collection which began shipping in early 1996. The sophisticated, lifestyle look of the collection immediately appealed to consumers and made the group one of Broyhill's best.

Broyhill made two significant manufacturing improvements in 1996 to stay ahead of the competition: a state-of-the-art particleboard plant began full production, providing substrate for many new products; and a new upholstery plant was opened in Lenoir, North Carolina to keep up with the consumer demand for stylish, affordable upholstery.

The Broyhill commitment to customer service was affirmed in 1996 with several retailer awards. JC Penney awarded Broyhill "Supplier of the Year" and Sears gave Broyhill recognition with its "Partner in Progress" award. The ARROS award, a survey of more than 800 retailers, recognized Broyhill's outstanding customer service for case goods.

Broyhill's commitment to building and maintaining its unsurpassed brand name awareness remained a top priority in 1996. The company continued to use product giveaways on nationally syndicated shows — a promotion it pioneered in the sixties. An aggressive advertising campaign in major consumer publications such as *Better Homes and Gardens* and *Good Housekeeping* was used to build brand awareness and drive consumer traffic into participating retailer locations.

The Highland House division offers highly styled upholstery crafted in the time-honored bench-made, eight-way hand-tied construction.

The combination of grandfather clock, curio cabinet and Fontana's popular styling made this curio clock a successful new product extension in 1996.

Function and flexibility have kept this Cherry Hill wall unit a strong seller.

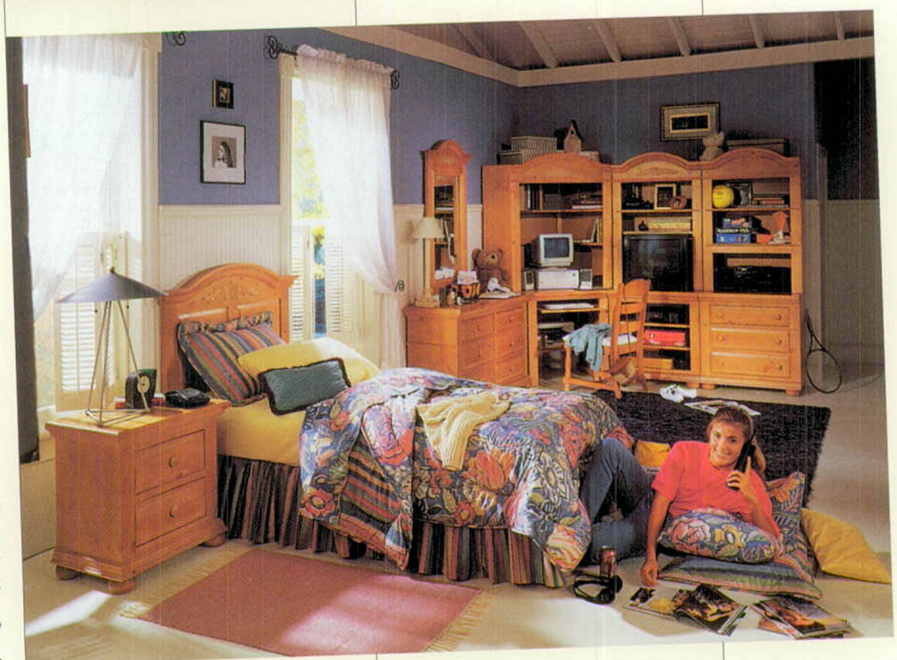
Torréon, a sophisticated rustic pine collection, blends eclectic elements of wood and metal in this appealing lifestyle group.

A consistent national advertising program in popular consumer magazines and television "giveaway" promotions reinforces the appeal of the Broyhill brand name.

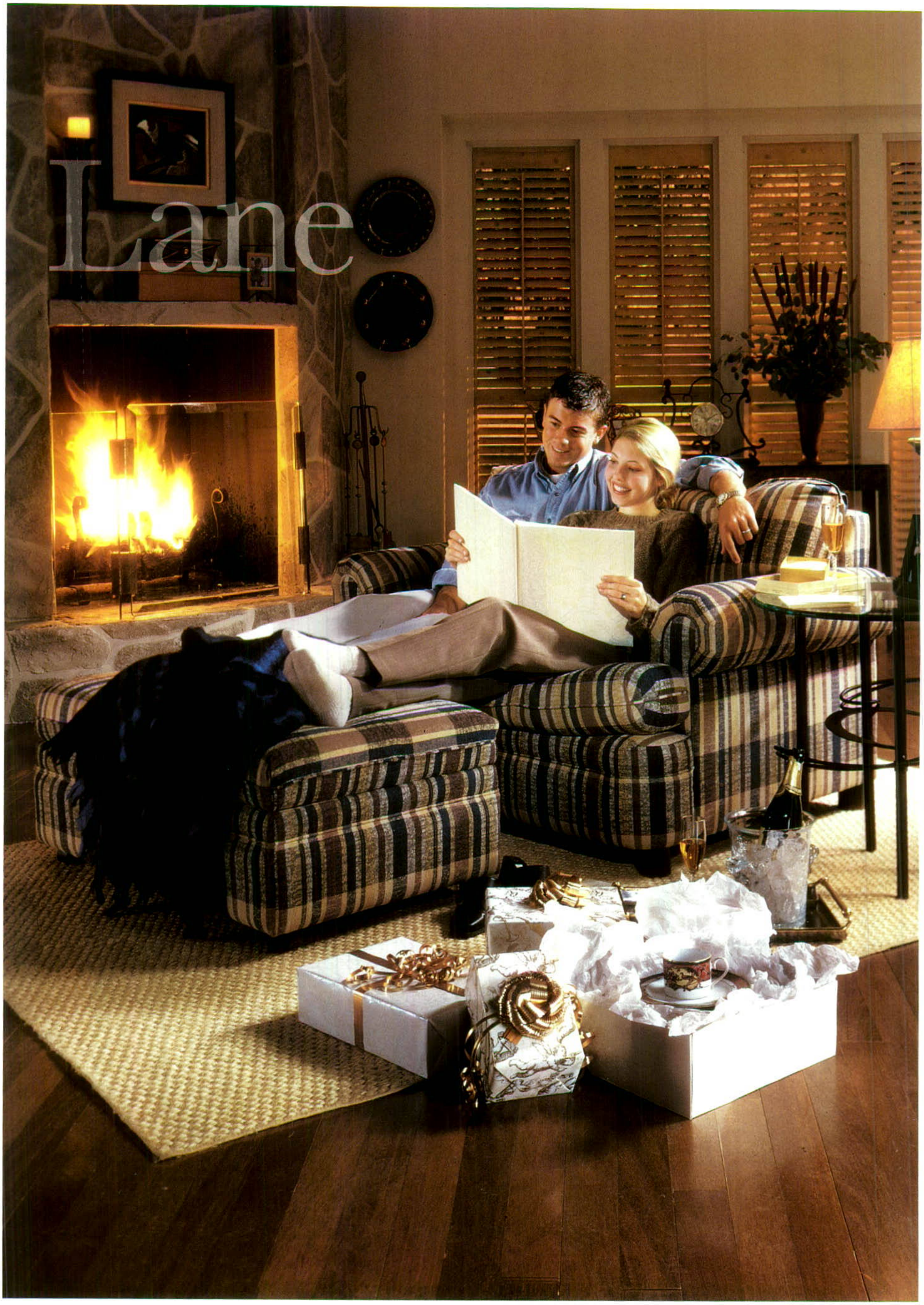
The use of hand-carved components from offshore enabled the Premier division to introduce the Tynecastle collection with high-end styling, intricate carvings and ample scaling.

VISIONS, A Decorating Workbook, is a helpful guide for consumers who are seeking decorating advice.

The Broyhill Adaptables program features furniture for bedrooms from juvenile to master, all within the same collection. Many of the Adaptables pieces are scaled to work in a child's room, teen or young adult.



Broyhill occasional and upholstery products are recognized by retailers as providing stylish designs at popular prices.


Lane

The Lane Company, with some of the best-known brand names in the industry, continues to use innovative new products to maintain market leadership in some of the industry's most profitable niches. These niches include motion furniture, where Lane enjoys the #1 position; recliners, where Lane is #2; and cedar chests, where the company dominates the market.

Lane's divisions continue to set the pace in the creation of innovative and exciting new products that is the formula for success in the tough and highly competitive furniture business.

Success in 1996 was due to many factors, including more great product offerings from Action Industries, Lane's largest division; new home office products from the Lane division; and a new line of leather furniture from the Hickory Chair division. Other Lane strengths include a highly skilled work force, a diverse and strong distribution network and state-of-the-art manufacturing technology.

Action's record sales for 1996 were paced by a strong performance from product introductions including the "chair-and-a-half" Snuggler recliner, Multi-Rest Super Sofa and the Relaxor Supreme Massage System. Distribution was enhanced during 1996 with the introduction of the Action Lane Comfort Showcase program, which helped increase sales through dedicated retail floor space in more than 180 dealer-owned galleries. An integrated package of national advertising that covers consumer and trade publications, as well as an increasing use of television, helped drive consumer demand for its products.

Also successful during the year was the Lane division's home office product line that was placed in a national department store chain, as well as the continuing success of its Mickey & Co. collection which gained new distribution in 1996.

The Hickory Chair division made a bold commitment in October with its introduction of a 240 piece collection of all-leather upholstery. The collection is drawing widespread interest among dealers and consumers alike.

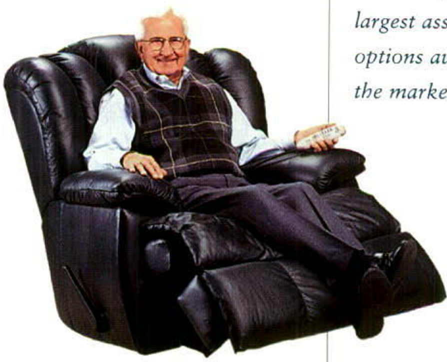
Lane's Venture division continued to create strong interest in the indoor-outdoor residential furniture market segment during the year with new products under its WeatherMaster and Weathercraft brands, while its Pearson division continued to grow its sales of fine upholstered products among the design trade through its showrooms in major metropolitan areas.

The Lane Upholstery division strengthened its alliance with the design community by expanding its Raymond Waites collection and introducing a collection by interior designer Sandra Nunnerley. The Hickory Business Furniture division, which manufactures high-end wood and upholstered business furniture, also had a successful year.

In summary, Lane continues to set the pace in the creation of innovative and exciting products — the formula for success in the tough and highly competitive furniture business.

The tuck-away design gives the Hi-Leg recliner a refined line with a body-conscious reclining secret.

Action Lane's Relaxor Supreme Massage System's hand-held control offers the largest assortment of options available on the market.



The Comfortmates collection features options such as hidden tables, heat and massage, storage wedges, built-in recliners and hands-free speaker phones.

The Multi-Rest collection offers the comfort of a recliner and the convenience of a twin-size sleep sofa, all in one unit.

The Executive Premiere Glider recliner features a patented mechanism that combines a positive lock on both sides with the largest swivel on the market, resulting in the most stable glider in the industry.

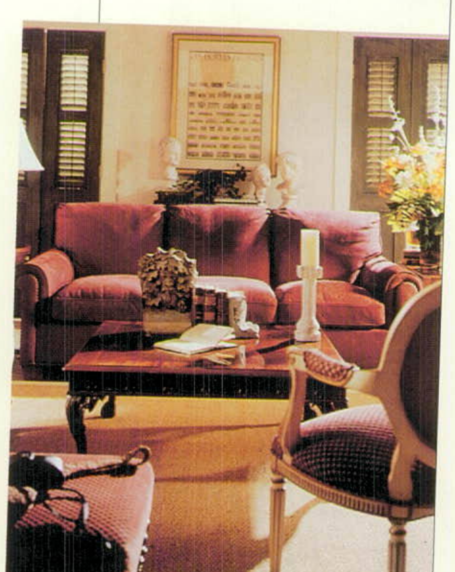
The scent of cedar is always refreshing and enjoyable. The readers of Good Housekeeping *responded well to Lane's first scratch-and-sniff ad in November.*

A Lane cedar chest is a popular gift among brides-to-be. Now they can have one personalized with their names and wedding date.

Lane/Venture's indoor/outdoor product lines continue to grow.

Lynhurst, introduced in April, was the Lane division's first 18th Century traditional collection in several years.

Hand-tailoring, innovative styling and the latest in fashionable fabrics and leathers is Pearson's niche.



Hickory Chair attracted a lot of attention among retailers attending the Fall International Furniture Market with the introduction of more than 240 pieces in leather.


Thomasville

Founded in 1904 in North Carolina, Thomasville is recognized internationally as a symbol of quality, craftsmanship, style and value. It is one of the most widely recognized names in the residential furniture industry with a well-known commitment to the consumer: "Beautiful furniture ... Beautifully made."

Thomasville continued in 1996 as an innovative trendsetter. Its product selection is one of the broadest in the industry, and several new developments during the year helped support strong sales across all lines of case goods and upholstered products.

Thomasville continued in 1996 as an innovative trendsetter in an industry that rewards quality, style and innovation to match the ever-changing tastes of consumers. Thomasville's product selection is one of the broadest in the industry and is generally focused on the high-end price segment.

Thomasville's wood (case goods) division strengthened its product line during 1996 by introducing the Renaissance, Carlton Hall and Artistix collections at the upper-end and the Martinique, Crossings and Pacific Grove collections in the medium-price segment. The company's wide selection in case goods reflects the major style categories in home furnishings: American Traditional/Country, 18th Century, European Traditional and Casual Contemporary. The product collections reflect Thomasville's ability to supply high-quality products at fair prices in all significant style categories.

Highlights for the Thomasville upholstery division include continued improvement in the style, value and profit margin of the Impressions product line, as well as utilization of internationally sourced cutting and sewing opportunities to improve the product lines' competitive strength in the marketplace, while at the same time improving profit margins. The upholstery division has one of the broadest product assortments under one brand name featuring three major style categories: Traditional, American Traditional/Country and Casual Contemporary. In 1996 the upholstery division initiated an "in stock" quick ship program to provide retailers and consumers with fast delivery on fast-selling styles.

The company maintains a focused distribution approach to its case goods and upholstery products. During 1996 Thomasville products were offered at more than 630 independently owned retail locations, including 80 Thomasville Home Furnishings Stores, 245 Thomasville Galleries and over 300 authorized Thomasville dealers. Thomasville implemented sales policies during the year designed to help expand future distribution.

Thomasville also manufactures and markets promotional assembled and RTA furniture under a separate brand name. The company's contract division markets and sells case goods and upholstered furniture to the hospitality, health care and governmental markets.

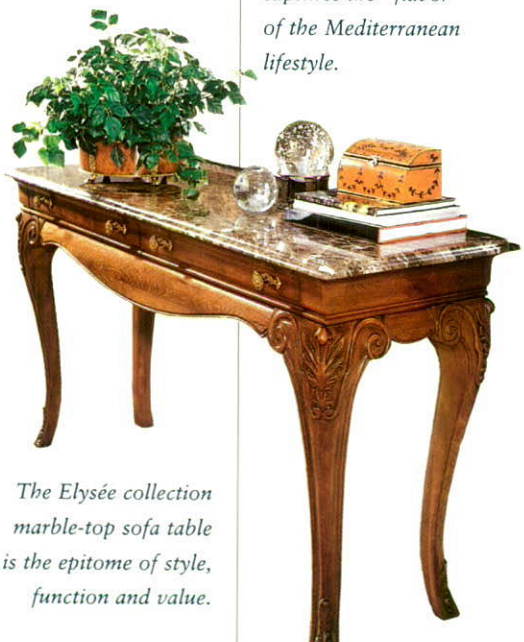
By focusing on changing consumer tastes, Thomasville believes it is well-positioned to continue to supply high-quality products in all furniture categories.

Consumer magazine advertising, such as this eight page Renaissance collection insert, drives thousands of customers into dealer-owned Thomasville retail showrooms.

Stylish simplicity defines the Bridges collection, a top-selling bedroom for Thomasville.

This striking eclectic dining room from the Renaissance collection captures the "flavor" of the Mediterranean lifestyle.

This stunning leather setting from the Impressions product line features unsurpassed comfort at a very comfortable price.



The Elysée collection marble-top sofa table is the epitome of style, function and value.

Go sophisticated with this stylish and comfortable living room setting. The striking sofa offers the relaxed feel of a slipcover without the fuss.

Intimate dining is represented by the Carlton Hall collection — a superior value crafted from fine cherry solids and veneers.

These Monaco collection sofas and Renaissance collection tables inspire a casual and comfortable lifestyle.

The Renaissance collection canopy bed ... inspired by nature, crafted by Thomasville.

This American Revival collection home electronics center was designed to meet the needs of today's homes.

FINANCIAL

REVIEW

General

The following analysis of the results of operations and financial condition of the Company should be read in conjunction with the consolidated financial statements and related notes included elsewhere in this document. In addition, management believes that the following factors have had a significant effect on its recent financial statements.

Acquisition of Thomasville. During the year ended December 31, 1995, the Company had two primary operating subsidiaries, Broyhill and Lane. On December 29, 1995, the Company acquired Thomasville. The transaction was accounted for as a purchase and, since the acquisition occurred as of the last business day of 1995, was reflected in the Company's consolidated balance sheet as of December 31, 1995. The Company's results of operations for 1995 do not include any of the operations of Thomasville. The cash portion of the acquisition of Thomasville was originally financed through funds obtained by borrowing under the Company's Secured Credit Agreement and the Receivables Securitization Facility. On March 1, 1996, the Company completed a public offering of 10,000,000 shares of common stock, generating net cash proceeds of approximately $81.3 million, which were used to repay a portion of this debt.

1994 Spin-Off Transactions. In order to focus on its core furniture operations, the Company completed a spin-off of its footwear subsidiaries in 1994. On November 17, 1994, the Company simultaneously refinanced the majority of its outstanding indebtedness and distributed to its shareholders all of the stock of its former footwear subsidiaries, Converse Inc. and The Florsheim Shoe Company. Upon completion of this restructuring, the Company retained no ownership interest in or management control of the footwear businesses. Accordingly, the financial results of the footwear businesses have been reflected as discontinued operations for all applicable periods.

1992 Asset Revaluation (Fresh-Start Reporting). Included in the Company's statements of operations are depreciation and amortization charges related to adjustments of assets and liabilities to fair value made in 1992. These adjustments are a result of the Company's 1992 reorganization and the adoption of AICPA SOP 90-7, "Financial Reporting by Entities in Reorganization under the Bankruptcy Code" (commonly referred to as "fresh-start" reporting) and are not the result of historical capital expenditures.

Results of Operations

As an aid to understanding the Company's results of operations on a comparative basis, the following table has been prepared to set forth certain statements of operations and other data for 1996, 1995 and 1994. The results for 1995 and 1994 do not include any of the operations of Thomasville.

(Dollars in millions)	*Year Ended December 31,*					
	1996		*1995*		*1994*	
	Dollars	*% of Net Sales*	*Dollars*	*% of Net Sales*	*Dollars*	*% of Net Sales*
Net sales	$1,696.8	100.0%	$1,073.9	100.0%	$1,072.7	100.0%
Cost of operations	1,228.4	72.4	760.4	70.8	752.5	70.2
Selling, general and administrative expenses	283.4	16.7	198.3	18.5	199.3	18.6
Depreciation and amortization	54.1	3.2	36.1	3.3	35.8	3.3
Earnings from operations	130.9	7.7	79.1	7.4	85.1	7.9
Interest expense	45.2	2.7	33.9	3.2	37.9	3.5
Other income, net:						
Gain on insurance settlement	—	—	7.9	0.7	—	—
Other	2.6	0.2	3.9	0.4	1.6	0.1
Earnings before income tax expense, discontinued operations and extraordinary item	88.3	5.2	57.0	5.3	48.8	4.5
Income tax expense	34.1	2.0	22.8	2.1	20.9	1.9
Net earnings from continuing operations	$ 54.2	3.2%	$ 34.2	3.2%	$ 27.9	2.6%
Gross profit[1]	$ 431.5	25.4%	$ 291.2	27.1%	$ 298.7	27.8%

[1]The Company believes that gross profit provides useful information regarding a company's financial performance. Gross profit has been calculated by subtracting cost of operations and the portion of depreciation associated with cost of goods sold from net sales.

(Dollars in millions)	*Year Ended December 31,*		
	1996	*1995*	*1994*
Net sales	$1,696.8	$1,073.9	$1,072.7
Cost of operations	1,228.4	760.4	752.5
Depreciation (associated with cost of goods sold)	36.9	22.3	21.5
Gross profit	$ 431.5	$ 291.2	$ 298.7

Year Ended December 31, 1996 Compared to Year Ended December 31, 1995

Net sales for 1996 increased to $1.7 billion from $1.07 billion in 1995. The improved sales performance resulted primarily from the acquisition of Thomasville. Had Thomasville been acquired at the beginning of 1995, net sales for 1996 would have increased 4.5% over pro forma net sales for 1995. The increase in net sales was achieved through continued introductions of new products and emphasis on the Company's brand names.

Cost of operations for 1996 was $1,228.4 million, compared to $760.4 million for 1995. The large increase was the result of the Company's acquisition of Thomasville. Cost of operations as a percentage of net sales increased from 70.8% for 1995 to 72.4% for 1996. This increase was due to the acquisition of Thomasville which had higher cost of operations as a percentage of net sales than the Company's other operating subsidiaries. Had Thomasville been included on a pro forma basis for 1995, cost of operations as a percentage of net sales would have been 73.3%.

Selling, general and administrative expenses increased to $283.4 million for 1996 from $198.3 million in 1995. The large increase was a result of the Company's acquisition of Thomasville. As a percentage of net sales, selling, general and administrative expenses were 16.7% for 1996 compared to 18.5% for 1995, reflecting the Company's acquisition of Thomasville.

Depreciation and amortization for 1996 was $54.1 million, compared to $36.1 million in 1995. The large increase was a result of the Company's acquisition of Thomasville. The amount of depreciation and amortization attributable to the "fresh-start" reporting was $16.3 million and $15.9 million for 1996 and 1995, respectively.

Interest expense for 1996 totaled $45.2 million, compared to $33.9 million for 1995. The increase in interest expense reflects additional debt incurred for the acquisition of Thomasville.

Other income, net for 1996 totaled $2.6 million compared to $3.9 million for 1995. For 1996, other income consisted of interest on short-term investments of $1.2 million and other miscellaneous income and expense items totaling $1.4 million.

For 1996, the Company provided for income taxes totaling $34.1 million on earnings before income tax expense and extraordinary item, producing an effective tax rate of 38.6%, compared to an effective tax rate for 1995 of 40.0%. The effective tax rates for such periods were adversely impacted by certain nondeductible expenses incurred and provisions for state and local income taxes.

Net earnings per common share from continuing operations on a fully diluted basis were $0.86 and $0.65 for 1996 and 1995, respectively. Net earnings per common share from continuing operations before gain on insurance settlement, net of income tax expense, on a fully diluted basis was $0.56 for 1995.

Weighted average shares outstanding used in the calculation of net earnings per common share on a primary and fully diluted basis were 61,946,000 and 62,871,000 in 1996, respectively, and 50,639,000 and 52,317,000 in 1995, respectively.

Gross profit for 1996 was $431.5 million, representing an increase of 48.2% over the gross profit of $291.2 million for 1995. The increase resulted primarily from the acquisition of Thomasville. The decrease in gross profit margin to 25.4% for 1996 from 27.1% in 1995 was due to the acquisition of Thomasville, which had lower gross profit margins than the Company's other operating subsidiaries. Had Thomasville been included on a pro forma basis in 1995, gross profit margin would have been 24.6%.

Year Ended December 31, 1995 Compared to Year Ended December 31, 1994

Net sales for 1995 were $1.07 billion, approximately unchanged from 1994. During 1995, residential furniture manufacturers' results were adversely affected by industry-wide price discounting and promotional activity in response to weaker demand for durable goods. The Company was able to maintain comparable net sales despite these conditions through new product introductions at Broyhill and Lane and continued advertising support of its brand names.

Cost of operations for 1995 was $760.4 million, compared to $752.5 million for 1994, an increase of 1.0%. The increase in cost of operations as a percentage of net sales, from 70.2% in 1994 to 70.8% in 1995, was primarily the result of unfavorable overhead absorption rates reflecting the Company's effort to maintain manufacturing utilization rates at levels necessary to balance inventory with incoming orders.

Selling, general and administrative expenses decreased to $198.3 million in 1995 from $199.3 million in 1994, a reduction of 0.5%. In 1995, such expenses included a $2.7 million non-cash expense related to stock options. As a percentage of net sales, selling, general and administrative expenses were 18.5% in 1995 compared to 18.6% in 1994, reflecting the Company's successful implementation of its ongoing cost reduction programs.

Depreciation and amortization for 1995 was $36.1 million, compared to $35.8 million in 1994, an increase of 0.9%. The amount of depreciation and amortization attributable to the "fresh-start" reporting was $15.9 million and $16.9 million in 1995 and 1994, respectively.

Interest expense for 1995 totaled $33.9 million and reflects twelve months of interest expense on the Company's debt structure, which was substantially refinanced as of December 29, 1995. Interest expense for 1995 was not comparable to interest expense for 1994 as a result of the previous refinancing of substantially all of the Company's debt in November 1994.

Other income, net for 1995 totaled $11.8 million, compared to $1.6 million in 1994. For 1995, other income consisted of a gain on insurance settlement of $7.9 million pertaining to the November 1994 destruction of a particleboard plant, interest income on short-term investments of $2.4 million and other miscellaneous income and expense items totaling $1.5 million.

For 1995, the Company provided for income taxes totaling $22.8 million on earnings before income tax expense, discontinued operations and extraordinary item, producing an effective tax rate of 40.0%, compared to an effective tax rate for 1994 of 42.8%. The effective tax rates for such years were adversely impacted by certain nondeductible expenses incurred and provisions for state and local income taxes. The effective income tax rate for 1995 was favorably impacted by special state income tax incentives granted in connection with the issuance of certain industrial revenue bonds on behalf of one of the Company's subsidiaries.

Net earnings per common share from continuing operations on a fully diluted basis were $0.65 and $0.54 for 1995 and 1994, respectively. Net earnings per common share from continuing operations before gain on insurance settlement, net of income tax expense, on a fully diluted basis were $0.56 and $0.54 for 1995 and 1994, respectively. Weighted average shares outstanding used in the calculation of net earnings per common share on a primary and fully diluted basis were 50,639,000 and 52,317,000 in 1995, respectively, and 51,495,000 and 51,506,000 in 1994, respectively.

Gross profit for 1995 was $291.2 million, compared to $298.7 million for 1994, a decrease of 2.5%. Gross profit as a percentage of net sales declined from 27.8% in 1994 to 27.1% in 1995, primarily as a result of lower factory utilization rates at certain of the Company's manufacturing facilities, reflecting the Company's effort to balance inventories with incoming orders.

Financial Condition and Liquidity

Liquidity

Cash and cash equivalents at December 31, 1996 totaled $19.4 million, compared to $26.4 million at December 31, 1995. For 1996, net cash provided by operating activities totaled $115.4 million. Net cash used by investing activities totaled $37.5 million. Net cash used in financing activities totaled $84.9 million, including the net repayment of $150.3 million of long-term debt, the receipt of $81.3 million of net proceeds from the sale of common stock pursuant to the March 1, 1996 equity offering, the receipt of $9.2 million from the exercise of warrants and stock options to purchase shares of common stock, $20.0 million for the repurchase of warrants and $4.5 million in debt issuance costs associated with the September 6, 1996 refinancing of the Secured Credit Agreement.

Working capital was $462.7 million at December 31, 1996, compared to $455.0 million at December 31, 1995. The current ratio was 4.2 to 1 at December 31, 1996, compared to 4.4 to 1 at December 31, 1995. The modest increase in working capital between years is primarily the result of the Company's focus on efficient management of individual working capital components.

At December 31, 1996, long-term debt, including current maturities, totaled $572.6 million, compared to $723.7 million at December 31, 1995. This reduction of indebtedness was funded by $81.3 million from the March 1, 1996 equity offering, with the remainder funded by cash flow from operations and warrant exercise proceeds. The Company's debt-to-capitalization ratio was 57.7% at December 31, 1996, compared to 70.6% at December 31, 1995.

Financing Arrangements

On September 6, 1996, the Company refinanced its Secured Credit Agreement. The Secured Credit Agreement is a $475.0 million reducing revolving credit facility. The Secured Credit Agreement allows for issuance of letters of credit and cash borrowings. Letters of credit are limited to no more than $60.0 million. Cash borrowings are limited to the facility's maximum availability less letters of credit outstanding. (See Note 8 of the Notes to Consolidated Financial Statements for additional information.) At December 31, 1996, there were $359.0 million of cash borrowings outstanding under the Secured Credit Agreement and $28.8 million in letters of credit outstanding, leaving an excess of $87.2 million available under the Secured Credit Agreement.

The Receivables Securitization Facility is a $225.0 million facility pursuant to which the Company sells interests in the trade receivables of its operating companies to a third party financial institution. The Company accounts for the Receivables Securitization Facility as long-term debt. The Company's cost of borrowing is based on a commercial paper index rate plus a program fee. At December 31, 1996, the Company had approximately $10.0 million of excess availability under its Receivables Securitization Facility.

In February 1996, in order to reduce the impact of changes in interest rates on its floating rate long-term debt, the Company entered into three year interest rate swap agreements having a total notional amount of $300.0 million. The swap agreements effectively convert a portion of the Company's floating rate long-term debt to a fixed rate. The Company pays the counterparties a fixed rate of 5.14% per annum and receives payment based upon the floating three month Eurodollar rate.

The Company believes its Secured Credit Agreement and the Receivables Securitization Facility, together with cash generated from operations, will be adequate to meet liquidity requirements for the foreseeable future.

CONSOLIDATED BALANCE SHEETS

(Dollars in thousands)	December 31, 1996	December 31, 1995
Assets		
Current assets:		
Cash and cash equivalents	$ 19,365	$ 26,412
Receivables, less allowances of $19,124 ($20,724 at December 31, 1995) (Note 8)	283,417	276,116
Inventories (Note 6)	281,107	269,677
Prepaid expenses and other current assets	23,378	17,888
Total current assets	607,267	590,093
Property, plant and equipment:		
Land	16,292	16,635
Buildings and improvements	172,783	166,214
Machinery and equipment	236,654	206,580
	425,729	389,429
Less accumulated depreciation	123,767	83,023
Net property, plant and equipment	301,962	306,406
Intangible assets (Note 7)	344,101	370,307
Other assets	15,874	24,933
	$1,269,204	$1,291,739
Liabilities and Shareholders' Equity		
Current liabilities:		
Current maturities of long-term debt (Note 8)	$ —	$ 18,639
Accounts payable	61,095	53,093
Accrued employee compensation	29,864	29,020
Accrued interest expense	6,579	1,304
Other accrued expenses	47,068	33,001
Total current liabilities	144,606	135,057
Long-term debt, less current maturities (Note 8)	572,600	705,040
Other long-term liabilities	132,341	150,486
Shareholders' equity:		
Preferred stock, authorized 10,000,000 shares, no par value – issued, none	—	—
Common stock, authorized 100,000,000 shares, $1.00 stated value – issued 61,432,181 and 50,120,079 shares at December 31, 1996 and 1995 (Note 9)	61,432	50,120
Paid-in capital	278,554	218,156
Retained earnings	79,671	32,880
Total shareholders' equity	419,657	301,156
	$1,269,204	$1,291,739

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF OPERATIONS

(Dollars in thousands, except per share data)

	Year Ended December 31, 1996	1995	1994
Net sales	$1,696,795	$1,073,889	$1,072,696
Costs and expenses:			
Cost of operations	1,228,355	760,393	752,528
Selling, general and administrative expenses	283,432	198,321	199,333
Depreciation and amortization (includes $16,285, $15,922 and $16,900 related to fair value adjustments)	54,082	36,104	35,776
Earnings from operations	130,926	79,071	85,059
Interest expense	45,217	33,845	37,886
Other income, net:			
Gain on insurance settlement (Note 14)	—	7,882	—
Other	2,583	3,930	1,668
Earnings before income tax expense, discontinued operations and extraordinary item	88,292	57,038	48,841
Income tax expense (Note 10)	34,070	22,815	20,908
Net earnings from continuing operations	54,222	34,223	27,933
Discontinued operations (Note 4):			
Earnings from operations, net of taxes	—	—	25,443
Loss on distribution, net of taxes	—	—	(15,104)
Net earnings before extraordinary item	54,222	34,223	38,272
Extraordinary item – early extinguishment of debt, net of tax benefit (Note 5)	(7,417)	(5,815)	—
Net earnings	$ 46,805	$ 28,408	$ 38,272
Net earnings per common share – primary (Note 3):			
Net earnings from continuing operations	$ 0.88	$ 0.67	$ 0.54
Discontinued operations	—	—	0.20
Extraordinary item – early extinguishment of debt	(0.12)	(0.11)	—
Net earnings per common share – primary	$ 0.76	$ 0.56	$ 0.74
Net earnings per common share – fully diluted (Note 3):			
Net earnings from continuing operations	$ 0.86	$ 0.65	$ 0.54
Discontinued operations	—	—	0.20
Extraordinary item – early extinguishment of debt	(0.12)	(0.11)	—
Net earnings per common share – fully diluted	$ 0.74	$ 0.54	$ 0.74

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in thousands)	*Year Ended December 31,* 1996	1995	1994
Cash Flows from Operating Activities:			
Net earnings	$ 46,805	$ 28,408	$ 38,272
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Net loss on early extinguishment of debt	7,417	5,815	—
Net earnings from discontinued operations	—	—	(10,339)
Depreciation of property, plant and equipment	42,022	26,371	25,675
Amortization of intangible and other assets	12,060	9,733	10,101
Noncash interest expense	2,042	2,150	196
(Increase) decrease in receivables	(7,301)	165	(27,979)
(Increase) decrease in inventories	(11,430)	3,340	(20,553)
Decrease in prepaid expenses and intangible and other assets	13,695	1,179	2,648
Increase (decrease) in accounts payable, accrued interest expense and other accrued expenses	33,710	14,794	(1,233)
Increase (decrease) in net deferred tax liabilities	(7,972)	(211)	7,904
Increase (decrease) in other long-term liabilities	(15,628)	246	(2,676)
Net cash provided by continuing operations	115,420	91,990	22,016
Net cash used by discontinued operations	—	—	(16,695)
Net cash provided by operating activities	115,420	91,990	5,321
Cash Flows from Investing Activities:			
Acquisition of business (Note 2)	—	(335,438)	—
Proceeds from the disposal of assets	2,766	519	5,621
Additions to property, plant and equipment	(40,344)	(35,616)	(21,108)
Net cash used by investing activities	(37,578)	(370,535)	(15,487)
Cash Flows from Financing Activities:			
Payments for debt issuance costs	(4,467)	(14,026)	(11,455)
Additions to long-term debt	380,000	576,000	423,000
Payments of long-term debt	(530,279)	(286,574)	(404,741)
Proceeds from the sale of common stock	81,292	—	—
Proceeds from the issuance of common stock	9,290	201	698
Payments for the repurchase of common stock warrants	(19,961)	(2,789)	—
Payments for common stock offering expenses of selling shareholders	(764)	—	—
Net cash provided (used) by financing activities	(84,889)	272,812	7,502
Net decrease in cash and cash equivalents	(7,047)	(5,733)	(2,664)
Cash and cash equivalents at beginning of period	26,412	32,145	34,809
Cash and cash equivalents at end of period	$ 19,365	$ 26,412	$ 32,145
Supplemental Disclosure:			
Cash payments for income taxes, net	$ 33,126	$ 14,386	$ 37,127
Cash payments for interest	$ 37,960	$ 32,010	$ 39,345

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(Dollars in thousands)

	Common Stock	*Paid-In Capital*	*Retained Earnings*	*Total*
Balance December 31, 1993	$50,004	$226,391	$62,162	$338,557
Net earnings			38,272	38,272
Common stock activity:				
Stock option exercises (Note 9)	71	615		686
Warrant exercises – 983 shares	1	11		12
Foreign currency translations			2,659	2,659
Distribution of discontinued operations to shareholders		(6,229)	(98,563)	(104,792)
Balance December 31, 1994	50,076	220,788	4,530	275,394
Net earnings			28,408	28,408
Common stock activity:				
Stock option exercises (Note 9)	43	153		196
Warrant exercises – 564 shares	1	4		5
Warrant purchases – 1,489,422 shares		(2,789)		(2,789)
Foreign currency translations			(58)	(58)
Balance December 31, 1995	50,120	218,156	32,880	301,156
Net earnings			46,805	46,805
Common stock activity:				
Sale of common stock – 10,000,000 shares	10,000	71,292		81,292
Stock option grants and exercises (Note 9)	85	2,309		2,394
Warrant exercises – 1,227,052 shares	1,227	7,522		8,749
Warrant purchases – 3,578,399 shares		(19,961)		(19,961)
Common stock offering expenses of selling shareholders		(764)		(764)
Foreign currency translations			(14)	(14)
Balance December 31, 1996	$61,432	$278,554	$79,671	$419,657

See accompanying notes to consolidated financial statements.

(Dollars in thousands, except per share data)

1 | The Company

Furniture Brands International, Inc. (referred to herein as the "Company") is a major manufacturer of residential furniture. During the year ended December 31, 1996, the Company had three primary operating subsidiaries: Broyhill Furniture Industries, Inc.; The Lane Company, Incorporated; and Thomasville Furniture Industries, Inc.

Substantially all of the Company's sales are made to unaffiliated furniture retailers. The Company has a diversified customer base with no one customer accounting for 10% or more of consolidated net sales and no particular concentration of credit risk in one economic section. Foreign operations and net sales are not material.

2 | Acquisition of Business

On December 29, 1995, the Company acquired all of the outstanding stock of Thomasville Furniture Industries, Inc. The purchase price totaled $331,200 plus the assumption of $8,000 of long-term debt. The purchase price, including capitalized expenses which approximated $4,200, was paid in cash. The transaction was accounted for as a purchase and, since the acquisition occurred as of the last business day of 1995, was reflected in the Company's consolidated balance sheet as of December 31, 1995. The Company's results of operations for 1995 do not include any of the operations of Thomasville. The total acquisition cost exceeded the estimated fair value of the net assets acquired by $93,110 with such amount being recorded as an intangible asset. The determination of the final fair values of assets and liabilities resulted in adjustments consisting of changes from initially recorded values as of December 31, 1995 resulting in decreases in receivables, inventories, excess of cost over net assets acquired and other noncurrent liabilities of $3,350, $2,236, $12,654 and $16,641, respectively. Adjustments to other balance sheet accounts were individually immaterial.

The following unaudited summary, prepared on a pro forma basis, combines the consolidated results of operations of the Company for 1995 and 1994 with those of Thomasville as if the transaction had occurred at the beginning of each year presented.

	Year Ended December 31,	
	1995	*1994*
Net sales	$1,624,116	$1,599,339
Net earnings from continuing operations	37,422	30,963
Net earnings	31,607	41,302
Net earnings per common share – fully diluted:		
Continuing operations	0.72	0.60
Total	0.61	0.80

The pro forma data has been adjusted, net of income taxes, to reflect interest expense and the amortization of the excess of cost over net assets acquired. Such pro forma amounts are not necessarily indicative of what the actual consolidated results of operations might have been if the acquisition had been effective at the beginning of each year presented.

3 Significant Accounting Policies

The significant accounting policies of the Company are set forth below.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and all its subsidiaries. All material intercompany transactions are eliminated in consolidation. The Company's fiscal year ends on December 31. The operating companies included in the consolidated financial statements report their results of operations as of the Saturday closest to December 31. Accordingly, the results of operations will periodically include a 53 week fiscal year. The years 1996, 1995 and 1994 all represent 52 week fiscal years.

Cash and Cash Equivalents

The Company considers all short-term investments with an original maturity of three months or less to be cash equivalents. Short-term investments are recorded at amortized cost, which approximates market.

Inventories

Inventories are stated at the lower of cost (first-in, first-out) or market.

Property, Plant and Equipment

Property, plant and equipment are recorded at cost when acquired. Expenditures for improvements are capitalized while normal repairs and maintenance are expensed as incurred. When properties are disposed of, the related cost and accumulated depreciation or amortization are removed from the accounts, and gains or losses on the dispositions are reflected in results of operations. For financial reporting purposes, the Company utilizes both accelerated and straight-line methods of computing depreciation and amortization. Such expense is computed based on the estimated useful lives of the respective assets, which generally range from 3 to 45 years for buildings and improvements and from 3 to 12 years for machinery and equipment.

Intangible Assets

The excess of cost over net assets acquired in connection with the acquisition of Thomasville totaled $93,110. The determination of the final fair values of assets and liabilities resulted in adjustments consisting of changes from initially recorded values as of December 31, 1995 resulting in decreases in receivables, inventories, excess of cost over net assets acquired and other noncurrent liabilities of $3,350, $2,236, $12,654 and $16,641, respectively. Adjustments to other balance sheet accounts were individually immaterial. This intangible asset is being amortized on a straight-line basis over a 40 year period.

The Company emerged from Chapter 11 reorganization effective with the beginning of business on August 3, 1992. In accordance with generally accepted accounting principles, the Company was

required to adopt "fresh-start" reporting which included adjusting all assets and liabilities to their fair values as of the effective date. The ongoing impact of the adoption of fresh-start reporting is reflected in the financial statements for all years presented.

As a result of adopting fresh-start reporting, the Company recorded reorganization value in excess of amounts allocable to identifiable assets of approximately $146,000. This intangible asset is being amortized on a straight-line basis over a 20 year period.

Also in connection with the adoption of fresh-start reporting, the Company recorded approximately $156,800 in fair value of trademarks and trade names based upon an independent appraisal. Such trademarks and trade names are being amortized on a straight-line basis over a 40 year period.

Interest Rate Swap Agreements

Interest rate swap agreements are used by the Company to fix the interest rate on a portion of its floating rate long-term debt. Amounts to be paid or received under the interest rate swap agreements are recognized in income as adjustments to interest expense. The fair value of the interest rate swap agreements is not recognized in the consolidated financial statements since they are accounted for as hedges.

Income Tax Expense

Income tax expense is based on results of operations before discontinued operations and extraordinary items. Deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates in effect for the year in which those temporary differences are expected to be recovered or settled. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in income in the period that includes the enactment date.

Extraordinary Item

In conjunction with the September 6, 1996 refinancing of the Secured Credit Agreement, the deferred financing fees and expenses pertaining to the refinanced credit facility were charged to results of operations as an extraordinary item.

In conjunction with the December 29, 1995 acquisition of Thomasville, the Company refinanced its Secured Credit Agreement and amended its Receivables Securitization Facility. As a result thereof, the Company charged to results of operations, as an extraordinary item, the deferred financing fees and expenses pertaining to such credit facilities.

Net Earnings Per Common Share

Net earnings per common share is based on the weighted average number of shares of common stock and common stock equivalents outstanding during the year. The stock options and warrants outstanding (Note 9) are considered common stock equivalents. Weighted average shares used in the calculation of primary and fully diluted net earnings per common share for 1996 were 61,946,000 and 62,871,000, respectively.

Stock-Based Compensation

Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation," encourages, but does not require, companies to record compensation cost for stock-based employee compensation plans at fair value. The Company has chosen to continue to account for stock-based compensation using the intrinsic value method prescribed in Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees."

Reclassification

Certain 1995 and 1994 amounts have been reclassified to conform to the 1996 presentation.

4 | Discontinued Operations

On November 17, 1994, the Company distributed the common stock of each of The Florsheim Shoe Company and Converse Inc. (which, in aggregate, represented the Company's footwear segment) to its shareholders. In accordance with generally accepted accounting principles, the financial results for the footwear segment are reported as "Discontinued Operations," and the Company's financial results of prior periods were restated. Condensed results of the discontinued operations were as follows:

	Eleven Months Ended November 17, 1994
Net sales	$663,637
Earnings before income tax expense	$ 40,047
Income tax expense	14,604
Net earnings	$ 25,443
Loss on distribution, net of taxes of $4,564	$ (15,104)

The loss on distribution reflects expenses related to: the distribution of the common stock of The Florsheim Shoe Company and Converse Inc. to the Company's shareholders, including certain expenses associated with establishing the capital structure of each company; compensation expense accrued as a result of adjustments required to be made to exercisable employee stock options; interest expense on certain long-term debt defeased, net of estimated interest income received from the trustees; and applicable income taxes.

Prior to the distribution of the common stock of The Florsheim Shoe Company to its shareholders, the Company had guaranteed certain of Florsheim's retail store operating leases. At December 31, 1996, the Company had guarantees outstanding on 85 retail store leases with a contingent liability totaling approximately $29,700. The Florsheim Shoe Company has agreed to indemnify the Company against any losses incurred as a result of the lease guarantees.

5 | Extraordinary Item – Early Extinguishment of Debt

In conjunction with the September 6, 1996 refinancing of the Secured Credit Agreement, the Company charged to results of operations $7,417, net of tax benefit of $4,469, representing the deferred financing fees and expenses pertaining to the refinanced facility. The charge was recorded as an extraordinary item.

In conjunction with the December 29, 1995 acquisition of Thomasville, the Company refinanced its Secured Credit Agreement and amended its Receivables Securitization Facility. As a

result thereof, the Company charged to results of operations $5,815, net of tax benefit of $3,478, representing the deferred financing fees and expenses pertaining to such credit facilities. The charge was recorded as an extraordinary item.

6 Inventories

Inventories are summarized as follows:

	December 31, 1996	*December 31, 1995*
Finished products	$127,292	$114,857
Work-in-process	51,587	51,259
Raw materials	102,228	103,561
	$281,107	$269,677

7 Intangible Assets

Intangible assets include the following:

	December 31, 1996	*December 31, 1995*
Intangible assets, at cost:		
Reorganization value in excess of amounts allocable to identifiable assets	$146,063	$146,063
Trademarks and trade names	156,828	156,828
Excess of cost over net assets acquired	93,110	105,764
	396,001	408,655
Less accumulated amortization	51,900	38,348
	$344,101	$370,307

8 Long-Term Debt

Long-term debt consists of the following:

	December 31, 1996	*December 31, 1995*
Secured credit agreement	$359,000	$521,000
Receivables securitization facility	200,000	185,000
Other	13,600	17,679
	572,600	723,679
Less current maturities	—	18,639
	$572,600	$705,040

The following discussion summarizes certain provisions of the long-term debt.

Secured Credit Agreement

On September 6, 1996, the Company refinanced its Secured Credit Agreement. The new Secured Credit Agreement is a five year reducing revolving credit facility with an initial commitment totaling $475,000. The Secured Credit Agreement allows for issuance of letters of credit and cash borrowings. Letter of credit outstandings are limited to no more than $60,000, with cash borrowings limited only by the facility's maximum availability less letters of credit outstanding.

Under the letter of credit facility, a fee of 0.875% per annum (subject to reduction based upon the Company achieving certain leverage ratios) is assessed for the account of the lenders ratably. A further fee of 0.125% is assessed on stand-by letters of credit representing a facing fee. A customary administrative charge for processing letters of credit is also payable to the relevant issuing bank. Letter of credit fees are payable quarterly in arrears.

Cash borrowings under the Secured Credit Agreement bear interest at a base rate or at an adjusted Eurodollar rate plus an applicable margin which varies, depending upon the type of loan the Company executes. The applicable margin over the base rate and the Eurodollar rate is subject to adjustment based upon achieving certain leverage ratios. At December 31, 1996, all loans outstanding under the Secured Credit Agreement were based on the Eurodollar rate.

At December 31, 1996, there were $359,000 of cash borrowings and $28,767 in letters of credit outstanding under the Secured Credit Agreement, leaving an excess of $87,233 available under the facility.

The common stock of the Company's principal subsidiaries, substantially all of the Company's cash, working capital (other than trade receivables) and property, plant and equipment, have been pledged or mortgaged as security for the Secured Credit Agreement. The Secured Credit Agreement contains a number of restrictive covenants and events of default, including covenants limiting capital expenditures and incurrence of debt, and requires the Company to achieve certain financial ratios, some of which become more restrictive over time.

The Secured Credit Agreement has no mandatory principal payments; however, the commitment is reduced to $400,000 on September 30, 1999 and $300,000 on September 29, 2000, with the remaining commitment maturing on September 15, 2001. In addition, the facility requires principal payments from a portion of the net proceeds realized from (i) the sale, conveyance or other disposition of collateral securing the debt, or (ii) the sale by the Company for its own account of additional subordinated debt and/or shares of its preferred and/or common stock.

Receivables Securitization Facility

The Receivables Securitization Facility is an obligation of the Company which matures on December 29, 2000 and is secured by substantially all of the Company's trade receivables. The facility operates through use of a special purpose subsidiary (Interco Receivables Corp.) which "buys" trade receivables from the operating companies and "sells" interests in same to a third party financial institution, which uses the interests as collateral for borrowings in the commercial paper market to fund the purchases. The Company accounts for this facility as long-term debt.

The Company pays a commercial paper index rate on all funds received (outstanding) on the facility. In addition, a program fee of 0.55% per annum on the entire $225,000 facility is payable on a monthly basis. The balance outstanding at December 31, 1996 was $200,000. The Company may increase or decrease its use of the facility on a monthly basis subject to the availability of sufficient trade receivables and the facility's maximum amount ($225,000). As of December 31, 1996, the Company had $9,989 in excess availability under the facility.

Other

Other long-term debt consists of various industrial revenue bonds with interest rates ranging from approximately 4.0% to 9.0%. Mandatory principal payments are required through 2004.

Interest Rate Swap Agreements

In February 1996, the Company entered into interest rate swap agreements with two financial institutions to reduce the impact of changes in interest rates on its floating rate long-term debt. The two agreements, which mature in three years, have a total notional principal amount of $300,000. The swap agreements effectively convert a portion of the Company's floating rate long-term debt to a fixed rate. The Company pays the counterparties a fixed rate of 5.14% per annum and receives payments based upon the floating three month Eurodollar rate. The Company is exposed to credit loss in the event of nonperformance by the counterparties; however, the Company does not anticipate nonperformance by the counterparties.

Other Information

Maturities of long-term debt are $0, $0, $0, $288,567 and $272,033 for years 1997 through 2001, respectively.

9 Common Stock

The Company's restated certificate of incorporation includes authorization to issue up to 100.0 million shares of common stock with a $1.00 per share stated value. As of December 31, 1996, 61,432,181 shares of common stock were issued and outstanding. It is not presently anticipated that dividends will be paid on common stock in the foreseeable future and certain of the debt instruments to which the Company is a party restrict the payment of dividends.

Shares of common stock were reserved for the following purposes at December 31, 1996:

	Number of Shares
Common stock options:	
Granted	3,859,476
Available for grant	184,724
Common stock warrants	2,042,631
	6,086,831

Under the Company's 1992 Stock Option Plan, certain key employees may be granted nonqualified options, incentive options or combinations thereof. Nonqualified and incentive options may be granted to expire up to ten years after the date of grant. Options granted become exercisable at varying dates depending upon the achievement of certain performance targets and/or the passage of certain time periods.

In October 1995, the Financial Accounting Standards Board issued SFAS No. 123, "Accounting for Stock-Based Compensation" ("SFAS No. 123"). Under SFAS No. 123, companies can either measure the compensation cost of equity instruments issued under employee compensation plans using a fair value based method, or can continue to recognize compensation cost under the provisions of Accounting Principles Board Opinion No. 25 ("Opinion No. 25") with pro forma disclosures of net income and earnings per share as if the fair value method had been applied. The Company adopted SFAS No. 123 as of January 1, 1996 and has elected to, as permitted under the statement, continue recognition of compensation costs under the provisions of Opinion No. 25 with appropriate disclosure, if material. The effect on net earnings for the years ended December 31, 1996 and 1995 is not material and, accordingly, no disclosure has been made. Further, based on

current and anticipated use of stock options for the foreseeable future, it is not envisioned the impact of the pronouncement would be material in subsequent periods.

The 1992 Stock Option Plan authorizes grants of options to purchase common shares at less than fair market value on the date of grant. During 1996, option grants totaling 217,978 common shares were made by the Company at less than market value. These options were issued to Thomasville employees as compensation for forfeited deferred compensation plans due to the acquisition; therefore, the cost of issuing the options at less than market value was included in determining the excess of cost over net assets acquired.

Changes in options granted and outstanding are summarized as follows:

	Year Ended December 31,					
	1996		*1995*		*1994*	
	Shares	*Average Price*	*Shares*	*Average Price*	*Shares*	*Average Price*
Beginning of period	2,498,000	$4.75	2,643,000	$4.64	2,915,000	$7.39
Granted	1,620,926	9.14	125,000	6.42	917,000	7.85
Exercised	(85,050)	3.99	(43,000)	3.38	(71,250)	7.00
Cancelled	(174,400)	4.29	(227,000)	4.68	(1,117,750)	7.82
End of period	3,859,476	$6.63	2,498,000	$4.75	2,643,000	$4.64
Exercisable at end of period	1,473,600		1,346,750		954,750	

As a result of the November 17, 1994 distribution of the common stock of The Florsheim Shoe Company and Converse Inc. to the Company's shareholders, options granted to the employees of those operating companies were cancelled. In addition, the exercise prices of the remaining options were adjusted to reflect the distribution in accordance with the antidilution provisions of the 1992 Stock Option Plan.

As of December 31, 1996, the Company had outstanding approximately 2.0 million warrants to purchase common stock. Each warrant entitles the holder thereof to purchase one share of common stock at $7.13 per share (as adjusted for the November 17, 1994 distribution to shareholders of the Company's former footwear segment). The warrants, which expire on August 3, 1999, include a five year call protection which expires on August 3, 1997. The warrants trade on the over-the-counter market.

10 | Income Taxes

Income tax expense was comprised of the following:

	Year Ended December 31,		
	1996	*1995*	*1994*
Current:			
Federal	$ 40,870	$20,499	$10,095
State and local	4,014	2,527	2,909
	44,884	23,026	13,004
Deferred	(10,814)	(211)	7,904
	$ 34,070	$22,815	$20,908

The following table reconciles the differences between the Federal corporate statutory rate and the Company's effective income tax rate:

	Year Ended December 31,		
	1996	*1995*	*1994*
Federal corporate statutory rate	35.0%	35.0%	35.0%
State and local income taxes,			
net of Federal tax benefit	2.3	2.6	2.9
Amortization of excess reorganization value	2.9	4.5	5.2
Other	(1.6)	(2.1)	(0.3)
Effective income tax rate	38.6%	40.0%	42.8%

The sources of the tax effects for temporary differences that give rise to the deferred tax assets and liabilities were as follows:

	December 31, 1996	*December 31, 1995*
Deferred tax assets:		
Employee postretirement benefits other than pensions	$ 3,318	$ 10,954
Expense accruals	14,251	9,267
Valuation reserves	6,514	5,147
Inventory costs capitalized	2,550	1,785
Other	1,063	919
Total gross deferred tax assets	27,696	28,072
Valuation allowance	—	—
Total net deferred tax assets	27,696	28,072
Deferred tax liabilities:		
Fair value adjustments	(77,645)	(84,263)
Employee pension plans	(697)	(1,990)
Depreciation	(7,158)	(9,029)
Other	(9,784)	(8,350)
Total deferred tax liabilities	(95,284)	(103,632)
Net deferred tax liabilities	$(67,588)	$ (75,560)

The net deferred tax liabilities are included in the consolidated balance sheet as follows:

	December 31, 1996	*December 31, 1995*
Prepaid expenses and other current assets	$ 19,783	$ 14,328
Other long-term liabilities	(87,371)	(89,888)
	$(67,588)	$(75,560)

11 Employee Benefits

The Company sponsors or contributes to retirement plans covering substantially all employees. The total cost of all plans for 1996, 1995 and 1994 was $9,450, $7,070 and $6,303, respectively.

Company-Sponsored Defined Benefit Plans

Annual cost for defined benefit plans is determined using the projected unit credit actuarial method. Prior service cost is amortized on a straight-line basis over the average remaining service period of employees expected to receive benefits.

It is the Company's practice to fund pension costs to the extent that such costs are tax deductible and in accordance with ERISA. The assets of the various plans include corporate equities, government securities, corporate debt securities and insurance contracts. The table below summarizes the funded status of the Company-sponsored defined benefit plans.

	December 31, 1996	December 31, 1995
Actuarial present value of benefit obligations:		
Vested benefit obligation	$230,456	$217,879
Accumulated benefit obligation	$237,512	$222,256
Projected benefit obligation	$262,667	$254,815
Plan assets at fair value	279,054	252,810
Plan assets in excess of (less than) projected benefit obligation	16,387	(2,005)
Unrecognized net (gain) loss	(13,975)	5,211
Unrecognized prior service cost	1,021	1,267
Prepaid pension cost	$ 3,433	$ 4,473

Net periodic pension cost for 1996, 1995 and 1994 includes the following components:

	Year Ended December 31,		
	1996	1995	1994
Service cost-benefits earned during the period	$ 6,792	$ 3,544	$ 4,758
Interest cost on the projected benefit obligation	18,102	17,005	13,682
Actual return on plan assets	(41,006)	(49,272)	(159)
Net amortization and deferral	20,366	31,566	(16,297)
Net periodic pension cost	$ 4,254	$ 2,843	$ 1,984

Employees are covered primarily by noncontributory plans, funded by Company contributions to trust funds, which are held for the sole benefit of employees. Monthly retirement benefits are based upon service and pay with employees becoming vested upon completion of five years of service.

The expected long-term rate of return on plan assets was 8.5% in 1996, 8.5% in 1995 and 8.0% – 9.5% in 1994. Measurement of the projected benefit obligation was based upon a weighted average discount rate of 7.25%, 7.25% and 8.0% and a long-term rate of compensation increase of 4.5%, 4.5% and 4.5% for 1996, 1995 and 1994, respectively.

Other Retirement Plans and Benefits

In addition to defined benefit plans, the Company makes contributions to a defined contribution plan and sponsors employee savings plans. The cost of these plans is included in the total cost for all plans reflected above.

In 1996, Thomasville discontinued postretirement medical benefits for future retirees. The accrued postretirement benefit obligation as of December 31, 1995 of $31,906 was primarily due to the acquisition of Thomasville; therefore, the elimination of the benefit was recorded as an adjustment to excess of cost over net assets acquired.

12 Lease Commitments

Certain of the Company's real properties and equipment are operated under lease agreements expiring at various dates through the year 2005. Leases covering equipment generally require, in addition to stated minimums, contingent rentals based on usage. Generally, the leases provide for renewal for various periods at stipulated rates.

Rental expense under operating leases was as follows:

	Year Ended December 31,		
	1996	*1995*	*1994*
Basic rentals	$13,470	$11,516	$11,553
Contingent rentals	1,364	779	385
	14,834	12,295	11,938
Less: sublease rentals	76	54	54
	$14,758	$12,241	$11,884

Future minimum lease payments under operating leases, reduced by minimum rentals from subleases of $491 at December 31, 1996, aggregate $39,691. Annual minimum payments under operating leases are $12,370, $10,351, $7,817, $5,087 and $2,327 for 1997 through 2001, respectively.

13 Fair Value of Financial Instruments

The Company considers the carrying amounts of cash and cash equivalents, receivables and accounts payable to approximate fair value because of the short maturity of these financial instruments.

Amounts outstanding under the Secured Credit Agreement and Receivables Securitization Facility are also considered to be carried on the financial statements at their estimated fair values because they were entered into recently and both accrue interest at rates which generally fluctuate with interest rate trends.

Amounts outstanding under other long-term debt are considered special purpose financing as an incentive to acquire specific real estate. Accordingly, the Company believes the carrying amounts approximate fair value given the circumstances under which such financings were acquired.

The fair value of the interest rate swap agreements at December 31, 1996 is approximately $5.0 million. The fair value of the interest rate swap agreements is based upon market quotes from the counterparties.

14 | Gain on Insurance Settlement

On November 20, 1994, an explosion and fire destroyed a particleboard plant owned and operated by the Company. During 1995, the Company rebuilt the plant with proceeds received from the insurance settlement. As a result thereof, a gain on insurance settlement, totaling $7,882, was recorded during the fourth quarter of 1995. The gain includes all costs associated with the claim with no further expenses or liability anticipated.

15 | Litigation

The Company is or may become a defendant in a number of pending or threatened legal proceedings in the ordinary course of business. In the opinion of management, the ultimate liability, if any, of the Company from all such proceedings will not have a material adverse effect upon the consolidated financial position or results of operations of the Company and its subsidiaries.

16 Quarterly Financial Information (Unaudited)

Following is a summary of unaudited quarterly information:

	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
Year ended December 31, 1996:				
Net sales	$ 434,185	$ 417,921	$ 420,742	$ 423,947
Gross profit	110,627	107,067	108,446	105,333
Net earnings:				
Continuing operations	17,429	14,325	11,621	10,847
Extraordinary item	—	(7,417)	—	—
Total	$ 17,429	$ 6,908	$ 11,621	$ 10,847
Net earnings per common share – primary:				
Continuing operations	$ 0.27	$ 0.22	$ 0.18	$ 0.19
Extraordinary item	—	(0.11)	—	—
Total	$ 0.27	$ 0.11	$ 0.18	$ 0.19
Net earnings per common share – fully diluted:				
Continuing operations	$ 0.27	$ 0.22	$ 0.18	$ 0.19
Extraordinary item	—	(0.11)	—	—
Total	$ 0.27	$ 0.11	$ 0.18	$ 0.19
Common stock price range (High-Low)	$14 7/8 - 12	$14 5/8 - 10	$12 1/8 - 9 1/8	$10 1/8 - 8 3/8
Year ended December 31, 1995:				
Net sales	$ 279,023	$ 258,626	$ 250,336	$ 285,904
Gross profit	76,932	70,557	67,399	76,349
Net earnings:				
Continuing operations	14,797	6,196	5,487	7,743
Extraordinary item	(5,815)	—	—	—
Total	$ 8,982	$ 6,196	$ 5,487	$ 7,743
Net earnings per common share – primary:				
Continuing operations	$ 0.29	$ 0.12	$ 0.11	$ 0.15
Extraordinary item	(0.11)	—	—	—
Total	$ 0.18	$ 0.12	$ 0.11	$ 0.15
Net earnings per common share – fully diluted:				
Continuing operations	$ 0.27	$ 0.12	$ 0.11	$ 0.15
Extraordinary item	(0.11)	—	—	—
Total	$ 0.16	$ 0.12	$ 0.11	$ 0.15
Common stock price range (High-Low)	$ 9 1/8 - 7	$ 8 1/8 - 5 3/4	$ 6 7/8 - 5 3/4	$ 7 1/8 - 6 1/8

The Company has not paid cash dividends on its common stock during the two years ended December 31, 1996. The closing market price of the Company's common stock on December 31, 1996 was $14.00 per share.

The Board of Directors and Shareholders

Furniture Brands International, Inc.:

We have audited the accompanying consolidated balance sheets of Furniture Brands International, Inc. and subsidiaries as of December 31, 1996 and 1995, and the related consolidated statements of operations, shareholders' equity, and cash flows for each of the years in the three-year period ended December 31, 1996. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Furniture Brands International, Inc. and subsidiaries as of December 31, 1996 and 1995, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 1996, in conformity with generally accepted accounting principles.

KPMG Peat Marwick LLP

St. Louis, Missouri
January 28, 1997

(Dollars in thousands, except per share data)	*Year Ended December 31,*				*Five Months Ended* [1]	
	1996	*1995*	*1994*	*1993*	*Dec. 31, 1992*	*Aug. 2, 1992*
Summary of Operations:						
Net sales	$1,696,795	$1,073,889	$1,072,696	$980,532	$394,873	$ 356,705
Gross profit	431,473	291,237	298,712	275,323	108,858	96,849
Interest expense	45,217	33,845	37,886	38,621	16,358	29,689
Earnings before income tax expense (benefit), discontinued operations, extraordinary item and cumulative effect of accounting change	88,292	57,038	48,841	37,266	18,045	247,716
Income tax expense (benefit)	34,070	22,815	20,908	15,924	6,807	(1,206)
Net earnings from continuing operations	54,222	34,223 [2]	27,933	21,342	11,238	248,922
Discontinued operations	—	—	10,339	24,026	10,088	(136,347)
Extraordinary item	(7,417)	(5,815)	—	—	—	1,075,466
Cumulative effect of accounting change	—	—	—	—	—	(1,719)
Net earnings	$ 46,805	$ 28,408	$ 38,272	$ 45,368	$ 21,326	$1,186,322
Per share of common stock — fully diluted:						
Net earnings from continuing operations	$ 0.86	$ 0.65 [2]	$ 0.54	$ 0.41	$ 0.23	$ 6.42
Discontinued operations	—	—	0.20	0.47	0.20	(3.52)
Extraordinary item	(0.12)	(0.11)	—	—	—	27.72
Cumulative effect of accounting change	—	—	—	—	—	(0.04)
Net earnings	$ 0.74	$ 0.54	$ 0.74	$ 0.88	$ 0.43	$ 30.58
Weighted average common and common equivalent shares outstanding — fully diluted (in thousands)	62,871	52,317	51,506	51,397	50,000	38,796
Other Information (continuing operations):						
Working capital	$ 462,661	$ 455,036	$ 308,323	$271,588	$261,967	$ 261,357
Property, plant and equipment, net	301,962	306,406	181,393	191,581	186,046	189,039
Capital expenditures	40,344	35,616	21,108	30,197	8,850	7,041
Total assets	1,269,204	1,291,739	881,735	858,163	870,115	893,012
Long-term debt	572,600	705,040	409,679	403,255	407,898	443,165
Shareholders' equity	$ 419,657	$ 301,156	$ 275,394	$338,557	$293,114	$ 275,400

[1] Effective December 31, 1992, the Company changed its fiscal year to end on December 31. The Company's adoption of fresh-start reporting required reporting calendar 1992 results in two 22 week periods.

[2] Net earnings from continuing operations before gain on insurance settlement, net of income tax expense, and net earnings per common share from continuing operations before gain on insurance settlement, net of income tax expense, were $29,463 and $0.56, respectively.

BOARD OF DIRECTORS, OFFICERS AND INVESTOR INFORMATION

BOARD OF DIRECTORS

Leon D. Black
Officer and Director of Apollo Capital Management, Inc. and Lion Capital Management, Inc.

Michael S. Gross 1*, 3
Officer of Apollo Capital Management, Inc. and Lion Capital Management, Inc.

John J. Hannan 1
Officer and Director of Apollo Capital Management, Inc. and Lion Capital Management, Inc.

Joshua J. Harris
Officer of Apollo Capital Management, Inc. and Lion Capital Management, Inc.

Wilbert G. Holliman 1
President and Chief Executive Officer of the Company

Bruce A. Karsh 2, 3
President of Oaktree Capital Management, LLC

John H. Kissick 3
Officer of Lion Capital Management, Inc. and advisor to Apollo Capital Management, Inc.

Donald E. Lasater 2, 3*
Retired Chairman of the Board and Chief Executive Officer of Mercantile Bancorporation Inc.

Lee M. Liberman 2*
Retired Chairman of the Board and Chief Executive Officer of Laclede Gas Company

Richard B. Loynd 1
Chairman of the Board of the Company

Marc J. Rowan
Officer of Apollo Capital Management, Inc. and Lion Capital Management, Inc.

John J. Ryan III
Director of Artemis S.A. and Financiere Pinault S.A.

Michael D. Weiner
Officer of Apollo Capital Management, Inc. and Lion Capital Management, Inc.

Committees of the Board

1. Executive Committee
2. Audit Committee
3. Executive Compensation and Stock Option Committee

(* indicates Committee Chairman)

PRINCIPAL CORPORATE OFFICERS

Richard B. Loynd
Chairman of the Board

Wilbert G. Holliman
President and Chief Executive Officer

David P. Howard
Vice-President, Treasurer and Chief Financial Officer

Lynn Chipperfield
Vice-President, General Counsel and Secretary

Steven W. Alstadt
Controller and Chief Accounting Officer

PRESIDENTS OF OPERATING COMPANIES

Brent B. Kincaid
Broyhill Furniture Industries, Inc.

K. Scott Tyler, Jr.
J. Thomas Foy*
The Lane Company, Incorporated

Frederick B. Starr
Thomasville Furniture Industries, Inc.

(*President of Action Industries, Inc.)

TRANSFER AGENT AND REGISTRAR FOR COMMON STOCK

The Bank of New York
Church Street Station
New York, NY 10286
(800) 524-4458

EXCHANGE LISTING

Common shares are listed on the New York Stock Exchange (trading symbol: FBN).

CORPORATE OFFICES

101 South Hanley Road
St. Louis, Missouri 63105-3493
(314) 863-1100

ANNUAL MEETING

The Annual Meeting of Shareholders will be at 10:00 a.m. on Tuesday, April 29, 1997, at the Rihga Royal Hotel, 151 West 54th Street, New York, New York.

FORM 10-K ANNUAL REPORT

Shareholders may obtain a copy of the current Form 10-K filed with the Securities and Exchange Commission by writing to the Treasurer of Furniture Brands International at the Corporate Offices.

INDEPENDENT AUDITORS

KPMG Peat Marwick LLP
1010 Market Street
St. Louis, Missouri 63101
(314) 444-1400

Furniture Brands
INTERNATIONAL

St. Louis, Missouri